

Message Text

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ACTION EUR-25

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E.O. 11652: ADC DECLAS 12/11/73

TAGS: EFIN, MT, MT,UK

SUBJ: GOM AND BARCLAYS TAKE OVER NATIONAL BANK

REF: VALLETTA 2432

1. SUMMARY. PRIME MINISTER MINTOFF ADJOURNED PARLIAMENT FOR CHRISTMANS RECESS WITH ANNOUNCEMENT NEW COMMERCIAL BANK TO BE ESTABLISHED WHICH IS TO BE SIXTH PERCENT OWNED BY GOM AND FORTY PERCENT BY BARCLAYS BANK WITH INITIAL CAPITAL OF THREE MILLION POUNDS. NEW ENTITY HAS AGREED IN EMERGENCY SITUATION REPORTED REFTEL TO TAKE OVER PRIVATE NATIONAL BANK OF MALTA WITHOUT COMPENSATION. END SUMMARY.

2. MINTOFF EXPLAINED THAT TWO WEEKS AGO GOM BECAME CONCERNED OVER RUMORS REGARDING NATIONAL BANK. LATTER ASSURED GOM THERE WAS NO BASIS FOR RUMORS AND THAT BUSINESS WAS NORMAL AND DEPOSITS WERE ON THE INCREASE. ONE WEEK LATER, THE CENTRAL BANK CONFIRMED THAT THE NATIONAL BANK WAS BETTER OFF THAN IN
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THE PAST AS A RESULT OF THE INTRODUCTION OF MORE CONSERVATIVE

POLICIES. NEVERTHELESS, BY FRIDAY, DEC. 7 IT WAS CLEAR THAT A RUN HAD BEGUN ON THE NATIONAL BANK. EVEN PARASTATAL BODIES HAD EXPRESSED DESIRE WITHDRAW THEIR DEPOSITS. MINTOFF SAID HE REGRETTED THAT WITHOUT ANY SERIOUS MOTIVE THE RUN ON THE NATIONAL BANK HAD GATHERED MOMENTUM. HE ADDED REPRESENTATIVES OF THE NATIONAL BANK SUGGESTED THAT THE GOM TAKE OVER THE BANK WITHOUT COMPENSATION. THE GOM REPLIED THAT IF THE OFFER WAS MADE BY THE BOARD AND THE BANK'S SHAREHOLDER'S THE GOM WOULD BE PREPARED TO CONSIDER IT SERIOUSLY. THE BOARD MET AND FIFTY PERCENT OF THE NATIONAL BANK SHAREHOLDERS HAVE ALREADY SIGNED THEIR ACCEPTANCE OF THE BOARD'S RECOMMENDATION THAT THEY DIVEST THEMSELVES OF THEIR SHARE CAPITAL AND HAND THE BANK OVER TO THE GOVERNMENT. SINCE THE GOM WAS ALREADY NEGOTIATING WITH BARCLAYS TO ESTABLISH A NEW COMMERCIAL BANK IN WHICH THE GOM WOULD HAVE THE MAJORITY SHARE-HOLDING, MINTOFF PROPOSED TO BARCLAYS THE SETTING UP OF THIS NEW LIMITED LIABILITY COMPANY WITH A CAPITAL OF THREE MILLION MALTA POUNDS OF WHICH THE GOM WOULD TAKE UP SIXTH PERCENT AND BARCLAYS FORTH PERCENT. HE SAID BARCLAYS IN LONDON HAD GIVEN THEIR AGREEMNT TO THE PROPOSED NEW COMPANY AND THAT THE NATIONAL BANK AGREED AS OF DEC. 11 TO FOLLOW OPERATIONAL GUIDES ISSUED BY AGREEMENT BETWEEN THE CENTRAL BANK MOF MALTA AND BARCLAYS BANK.

3. COMMENT: THE CURRENT BANKING CRISIS APPEARS TO SOME EXTENT TO BE AN UNWITTING CONSEQUENDCE OF THE CURRENT MALTA LABOR PARTY (MLP) ADMINISTRATION'S AUSTERE ECONOMIC POLICIES, WHICH INCLUDE UNREALISTIC LIMITS ON INTERESTRATES WHICH COMMERCIAL BANKS MAY CHARGE (EIGHT PERCENT). WHILE THESE LIMITS REFLECT THE MLP'S POPULIST AND SOCIALIST ETHIC AND ARE IN CONFORMITY WITH ITS EFFORTS TO RESTRAIN INFLATION, THEY HAVE ENCOURAGED THE TRANSFER OF CAPITAL ABORAD WHERE INTEREST RATES ARE HIGHER.GOLINO

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